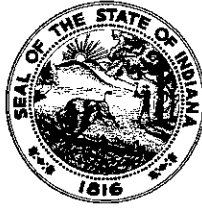


# STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



INDIANA GOVERNMENT CENTER NORTH  
100 NORTH SENATE AVENUE N1058(B)  
INDIANAPOLIS, IN 46204  
PHONE (317) 232-3777  
FAX (317) 232-8779

TO: Assessing Officials

FROM: Barry Wood, Assessment Division Director *JBW*

RE: Golf Course Guidance

DATE: March 12, 2013

The Department of Local Government Finance ("Department") is required to establish uniform capitalization tables and procedures to be used for the assessment of golf courses. IC 6-1.1-4-42(e). These tables and procedures were formally promulgated last year in 50 IAC 29 (see <http://www.in.gov/legislative/iac/T00500/A00290.PDF>).

Assessing officials must use the tables and procedures adopted by the Department to assess, reassess, and annually adjust the value of golf courses. Please note, the Department has previously issued guidance regarding the assessment of golf courses (see [http://www.in.gov/dlgf/files/090817 - Wood Memo - Valuation of Golf Courses - Legislative Changes.pdf](http://www.in.gov/dlgf/files/090817_-_Wood_Memo_-_Valuation_of_Golf_Courses_-_Legislative_Changes.pdf); [http://www.in.gov/dlgf/files/091215 - Wood Memo - Golf Course Valuation Guidance Supplement.pdf](http://www.in.gov/dlgf/files/091215_-_Wood_Memo_-_Golf_Course_Valuation_Guidance_Supplement.pdf), and [http://www.in.gov/dlgf/files/110505 - Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/110505_-_Wood_Memo_-_Golf_Course_Guidance.pdf) and [http://www.in.gov/dlgf/files/120315 Golf Course Guidance Memo.pdf](http://www.in.gov/dlgf/files/120315_Golf_Course_Guidance_Memo.pdf)).

Determining the Net Operating Income ("NOI") is a key to establishing the value of a property in the income approach. The other key component that may have a significant effect on the total value of the property is the capitalization rate. The Overall Capitalization Rate ("OAR") expresses the relationship between net operating income and the market value of the property. The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor. **The OAR to be used statewide for the March 1, 2013 assessment date is 12.04%.** To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Capitalization Rate.

The issue of a zero or negative assessment as a result of a negative NOI has also caused confusion. The administrative rule, 50 IAC 29-3-7 (see below), addresses the issue:

## **50 IAC 29-3-7 True tax value and zero or negative assessments**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 7. Where there is a negative net operating income, therefore, producing an assessed value of zero (0), the assessing official shall first ensure that all income and expense information is accurate. Where, despite a review of the information, the assessed value is still negative or zero (0), the assessing official

shall determine the market value-in-use that results in a liability of five percent (5%) of the adjusted gross income, as illustrated by the following example:

Assuming a 12% Overall Capitalization Rate

Assuming \$300,000 in Expenses

Gross Income = \$500,000

Less Golf Cart Income = <\$150,000>

Less Pro Shop Income = <\$50,000>

Adjusted Gross Income = \$300,000

Less Expenses = <\$300,000>

Net Operating Income = \$0

Multiply Adjusted Gross Income by 5% =  $\$300,000 \times 5\% = \$15,000$

Divide above result by 12% Overall Capitalization Rate =  $\$15,000/12\% = \$125,000$  Assessed Value

*(Department of Local Government Finance; 50 IAC 29-3-7; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*

Additionally, when a golf course has multiple parcels or ID numbers that combined comprise the golf enterprise, every effort should be made to combine them into one parcel or ID number. Taxpayers may make a written request to combine the parcels or the assessing official shall consolidate more than one (1) existing contiguous parcel into a single parcel if they have knowledge that an improvement to the real property is located on or otherwise significantly affects the parcels. IC 6-1.1-5-16 (see below)

Most, but not all, golf courses have multiple parcels that make up the golf enterprise including multiple tracts of land, a club house, maintenance building, housing for irrigation pumps and/or control and a driving range. The income capitalization method of these parcels, when combined, contributes to the NOI of the facility and generally cannot be separated out. The market value of the facility would therefore include all of the parcels.

#### **IC 6-1.1-5-16**

##### **Consolidation of contiguous parcels into single parcel**

Sec. 16. (a) An action under this section is subject to section 5.5 of this chapter.

(b) If an owner of existing contiguous parcels makes a written request that includes a legal description of the existing contiguous parcels sufficient for the assessing official to identify each parcel and the area of all contiguous parcels, the assessing official shall consolidate more than one (1) existing contiguous parcel into a single parcel to the extent that the existing contiguous parcels are in a single taxing district and the same section. For existing contiguous parcels in more than one (1) taxing district or one (1) section, the assessing official shall, upon written request by the owner, consolidate the existing contiguous parcels in each taxing district and each section into a single parcel. An assessing official shall consolidate more than one (1) existing contiguous parcel into a single parcel if the assessing official has knowledge that an improvement to the real property is located on or otherwise significantly affects the parcels.

*As added by P.L.51-1997, SEC.5. Amended by P.L.38-1998, SEC.2; P.L.113-2010, SEC.20.*

Finally, the income capitalization method for golf courses includes revenue from multiple sources such as greens fees, membership fees, food and beverage sales and the driving range. Therefore, the clubhouse, banquet center, driving range, and maintenance building, housing for pumps and or controls are not to be assessed separately and are included in the assessment for the golf course also referred to as the golf facility or enterprise using the income capitalization method.

If you have any questions, please contact your Assessment Division Field Representative or Assessment Division Director, Barry Wood at [Bwood@dlgf.in.gov](mailto:Bwood@dlgf.in.gov) or (317) 232-3762.